

# Regions Investment Management

## Quarterly Overview

### State of Alabama Treasurer's Office

### Prepaid Affordable College Tuition (PACT) Program

As of March 31, 2019

LeeAnn Herron, CRSP®  
Vice President & Relationship Consultant  
Regions Institutional Services  
leeann.herron@regions.com  
205-264-5752

George R. McCurdy IV, CFA  
Sr. Vice President & Portfolio Manager  
Regions Investment Management  
george.mccurdy@regions.com  
205-264-7554



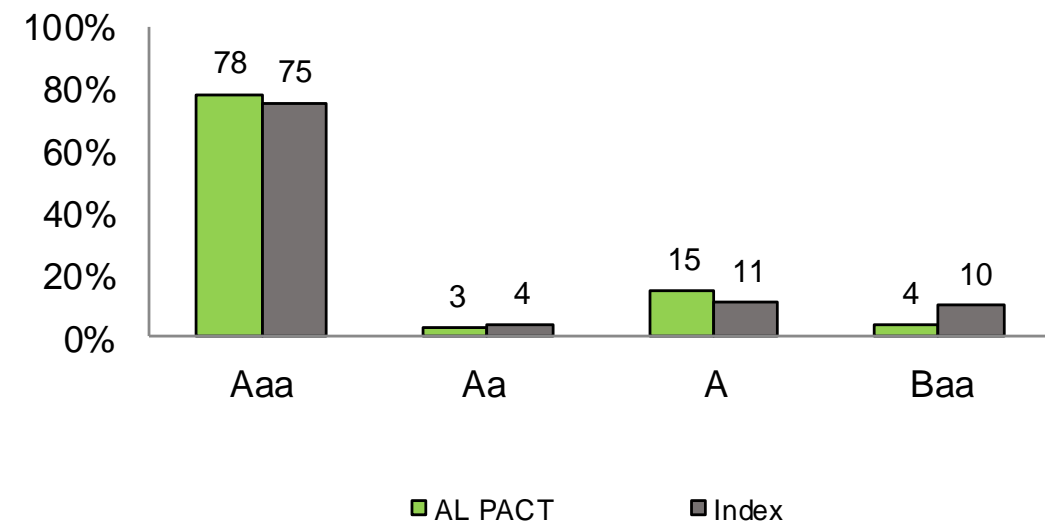
# Bond Portfolio Overview

- Characteristics
- Performance
- Manager Universe
- Allocation Detail

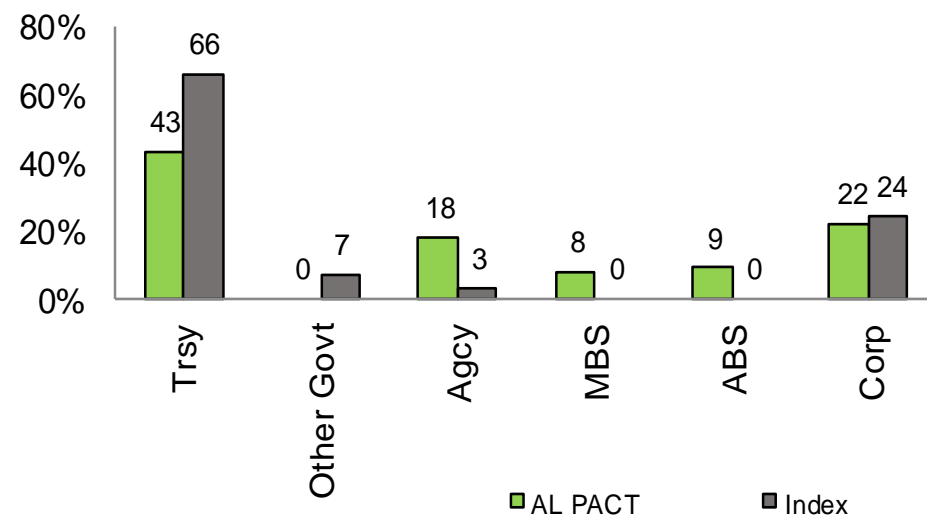
# 1Q19 Fixed Income Portfolio Characteristics vs. Index

	AL PACT	Index
Yield to Maturity	2.50%	2.46%
Effective Duration	1.72 Yrs	1.92 Yrs
Maturity	2.04 Yrs	2.00 Yrs
Average Coupon	2.15%	2.42%
Average Quality	Aa1	Aa1

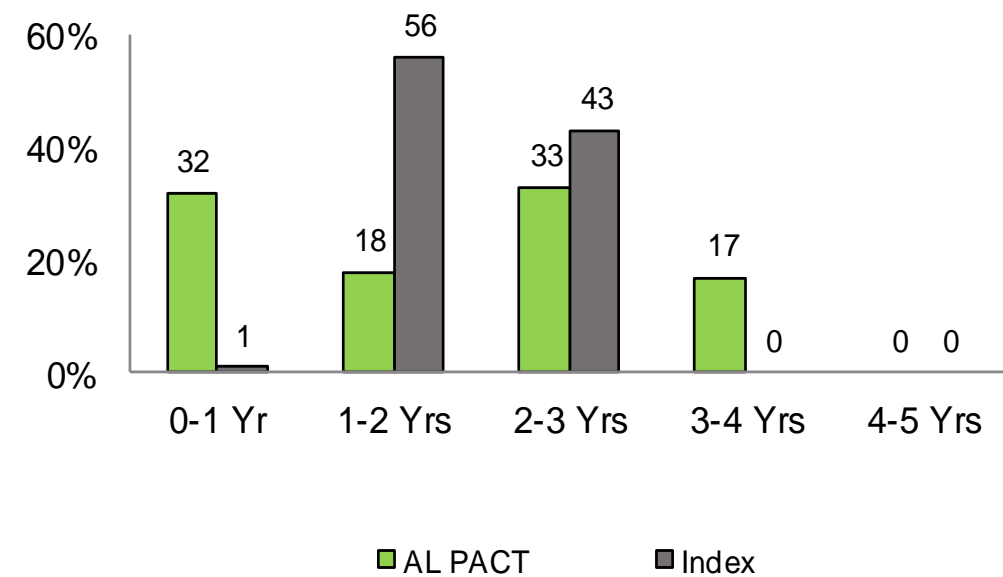
## Quality vs. Index



## Sector Distribution vs. Index



## Duration Distribution vs. Index



Source: Portfolio: Bondedge; Index: Bloomberg Barclay's 1-3 Year Govt / Credit

# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Total Returns Compared with the Benchmark

As of 03/31/2019

	Qtr	YTD	1-Yr	3 Years *	Inception *
<b>AL PACT</b>	<b>1.40%</b>	<b>1.40%</b>	<b>3.15%</b>	<b>1.60%</b>	<b>1.80%</b>
Benchmark	1.21%	1.21%	3.03%	1.32%	1.52%
<i>Excess Return</i>	<i>0.19%</i>	<i>0.19%</i>	<i>0.12%</i>	<i>0.28%</i>	<i>0.28%</i>

Returns are shown **net of fees**;

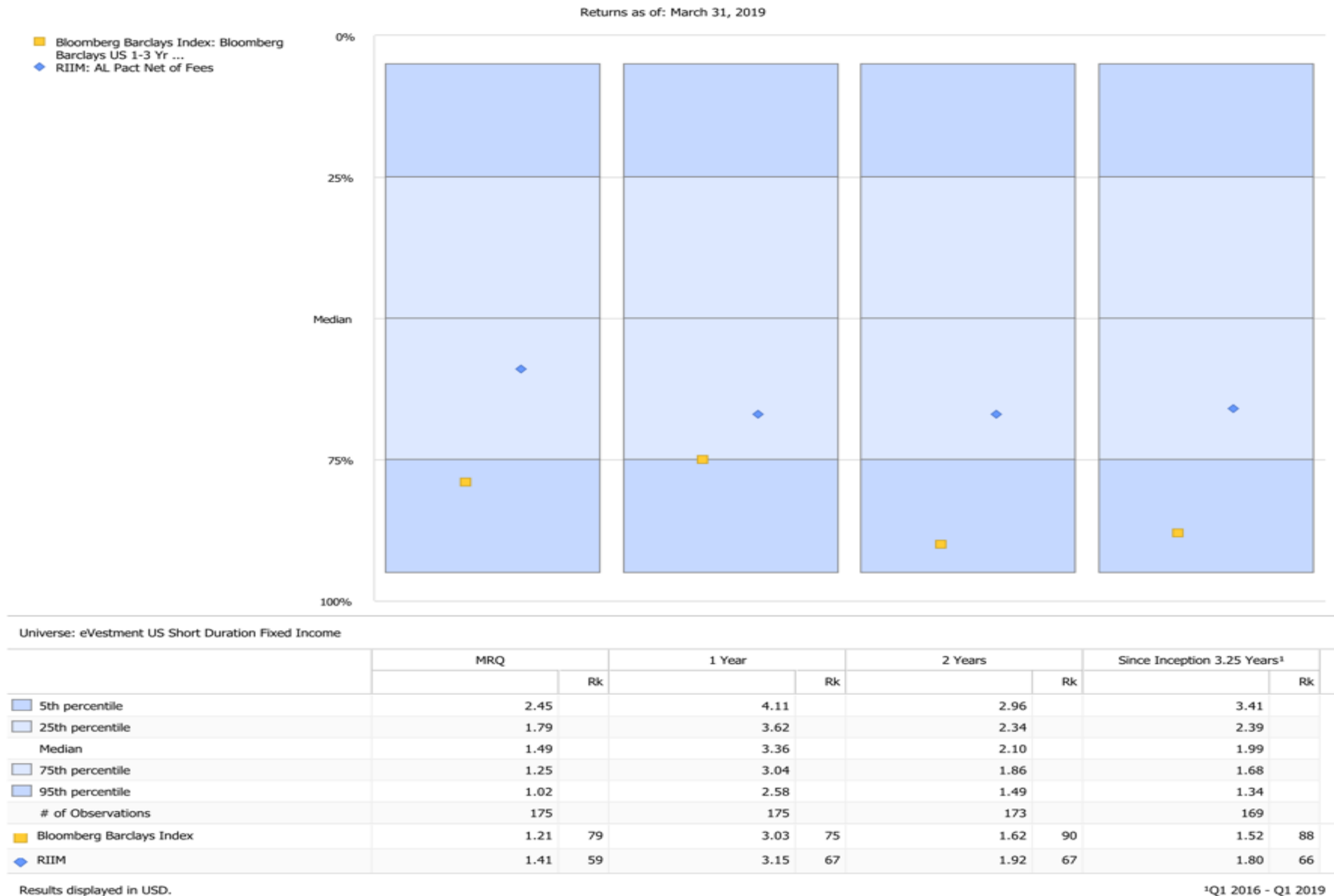
Past performance does not guarantee future returns; \*Periods greater than one year are annualized; Inception Date as of 12/31/2015

Source: SEI & Bloomberg Barclays

Index: Bloomberg Barclays 1-3 Year Gov/Credit

# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Manager Universe Rankings



# State of Alabama Treasurer's Office - Prepaid Affordable College Tuition (PACT) Program

## Allocation Detail

INVESTMENT RETURN SUMMARY - QUARTER ENDING MARCH 31, 2019					
Name	Current Quarter Total Return	Prior Quarter Market Value	Net Cashflow	Investment Return	Current Quarter Market Value *
Regions (STFI)	1.35%	62,998,437	\$0	\$851,028	63,849,464.86
Regions Cash (CASH)	0.53%	23,408,310	\$2,000,000	\$134,531	\$25,542,841
Regions Lockbox (CASH)	0.00%	2,003,225	(\$1,785,361)	\$0	\$217,865
<b>Total Portfolio</b>		<b>88,409,972</b>	<b>\$214,640</b>	<b>\$985,559</b>	<b>\$89,610,171</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,640,200.37 that was in the Treasury Account on March 31, 2019.

MANAGER ALLOCATION SUMMARY - QUARTER ENDING MARCH 31, 2019					
Prior Quarter Market Value	%	Fund Name	Style	Current Quarter Market Value *	%
\$4,420	0%	Residuals	(FIXD)	4,444	0%
\$62,998,437	71%	Regions	(STFX)	63,849,465	71%
\$23,408,310	26%	Regions Cash	(CASH)	25,542,841	29%
\$2,003,225	2%	Regions Lockbox	(CASH)	217,865	0%
<b>\$88,414,392</b>	<b>100%</b>	<b>Composite</b>	<b>(TOTL)</b>	<b>89,614,615</b>	<b>100%</b>

\* The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$2,640,200.37 that was in the Treasury Account on March 31, 2019.

\*Source: SEI

# Economic & Financial Market Update

# Market Returns

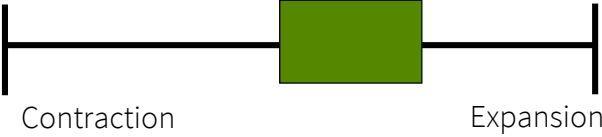
	YTD As of 3/31/19	Trailing 3 Months 3/31/19	2018	2017	2016	2015	2014	2013
Equities								
S&P 500 Index (Large Cap Stocks)	13.65%	13.65%	-4.38%	21.83%	11.96%	1.38%	13.69%	32.39%
S&P 500 (Large Cap Growth)	14.95%	14.95%	-0.01%	27.44%	6.89%	5.52%	14.89%	32.75%
S&P 500 (Large Cap Value)	12.19%	12.19%	-8.95%	15.36%	17.40%	-3.13%	12.36%	31.99%
Russell 2500 Index (Small to Mid Cap Stocks)	15.82%	15.82%	-10.00%	16.81%	17.59%	-2.90%	7.07%	36.80%
Russell Mid Cap TR USD	16.54%	16.54%	-9.06%	18.52%	13.80%	-2.44%	13.22%	34.76%
Russell 2000 Index (Small Cap Stocks)	14.58%	14.58%	-11.01%	14.65%	21.31%	-4.41%	4.89%	38.82%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	12.31%	12.31%	-14.20%	27.19%	4.50%	-5.66%	-3.87%	15.29%
MSCI EAFE Index (Foreign Stocks, Net Return)	9.98%	9.98%	-13.79%	25.03%	1.00%	-0.81%	-4.90%	22.78%
MSCI EM (Foreign Stocks, Net Return)	9.91%	9.91%	-14.58%	37.28%	11.19%	-14.92%	-2.19%	-2.60%
Fixed Income								
Barclays US Agg Bond TR USD	2.94%	2.94%	0.01%	3.54%	2.65%	0.55%	5.97%	-2.02%
BofA Merrill Lynch Muni 1-12 YR (Muni Bonds)	2.24%	2.24%	1.62%	3.21%	0.02%	2.34%	4.27%	-0.12%
Barclays Global Agg Ex USD TR	1.52%	1.52%	-2.15%	10.51%	1.49%	-6.02%	-3.08%	-3.08%
Barclays High Yield Corp TR USD	7.26%	7.26%	-2.08%	7.50%	17.13%	-4.47%	2.45%	7.44%
Barclays US Treasury US TIPS	3.19%	3.19%	-1.26%	3.01%	4.68%	-1.44%	3.64%	-8.61%
FTSE Treasury Bill 3 Month (Money Market)	0.60%	0.60%	1.86%	0.86%	0.33%	0.05%	0.03%	0.05%
Diversified Strategies								
HFRX Global Hedge Index	2.60%	2.60%	-6.72%	5.98%	2.50%	-3.64%	-0.58%	6.72%

Source: Morningstar



# Economy

## Overview & Outlook

Economy		<p><u>Risks:</u></p> <ul style="list-style-type: none"> <li>▪ Inflation could surprise to the upside, prompting the FOMC to do the same</li> <li>▪ Heightened geopolitical tensions</li> <li>▪ Potential financial instability in China</li> <li>▪ Moves to limit imports into U.S spark global trade spats, weighing on global growth</li> </ul>	<p><u>Opportunities:</u></p> <ul style="list-style-type: none"> <li>▪ Labor market conditions continue to improve</li> <li>▪ Rising real incomes</li> <li>▪ Solid rate of house price appreciation</li> <li>▪ Healthy household balance sheets</li> <li>▪ Regulatory relief and expansive fiscal policy pose upside risks for U.S. growth</li> </ul>
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### Which Way Is Up?

#### Wild Swings In Economic Data Bring Confusion, Not Clarity

- The long-delayed report on Q4 2018 GDP puts annualized real GDP growth at 2.6 percent.<sup>1</sup> This was better than expected, but won't last. Data released subsequent to the GDP report point to a downward revision to the BEA's first estimate of Q4 growth, with consumer spending, residential construction, and international trade failing to live up to the BEA's assumptions.
- Based on the limited data available at this point – the backlog of data releases delayed by the partial government shutdown has not yet been cleared – Q1 2019 real GDP growth is shaping up to come in around 1.0 percent (annualized). This in part reflects ongoing residual seasonality issues that bias estimated Q1 growth in any given year lower.
- To a large extent, consumer spending is behind what is shaping up to be a weak print on Q1 GDP. Retail sales are reported to have fallen by 1.6 percent in December, with control retail sales – a direct input into the GDP data – down by 2.3 percent. While retail sales firmed up a bit in January – total sales were up 0.2 percent and control sales were up 1.1 percent – this still leaves Q1 sales below the Q4 2018 average given the severity of the declines reported for December.<sup>2</sup> The December retail sales data are at odds with indicators such as personal income growth and consumer confidence, and are also at odds with results reported by many retailers.
- The ISM Manufacturing Index slipped to 54.2 percent in February, while the ISM Non-Manufacturing Index rose to 59.7 percent.<sup>3</sup> The ISM surveys are consistent with firmer growth in the U.S. economy than will be implied by the Q1 GDP data.

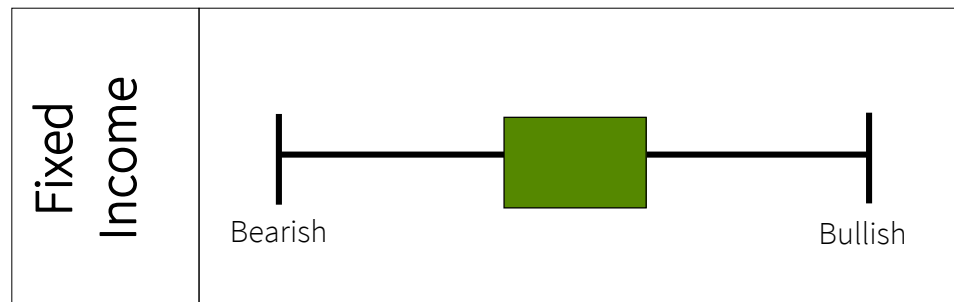
#### Don't Buy The Monthly Job Growth Number – For January or February

- February job growth didn't surprise to the downside, it shocked to the downside. Total nonfarm employment rose by just 20,000 jobs in February, but revised data show a gain of 311,000 jobs in January.<sup>4</sup> Neither number, however, is a true reflection of the underlying health of the labor market, but an average of the two months would be much closer to the mark.
- The unemployment rate fell to 3.8 percent in February, a reversal of the effects of the partial government shutdown that pushed the jobless rate higher in January. The broader U6 rate, which accounts for both underemployment and unemployment, fell from 8.1 percent in January to 7.3 percent in February, the largest decline on record, but the path of this measure over recent months was also impacted by the partial government shutdown. Average hourly earnings were up 3.4 percent, year-on-year, in February, marking a cycle high.<sup>4</sup>
- While sharp swings in many of the top-tier economic data series make it hard to get a read on where the U.S. economy is, let alone where it is going, muted inflation pressures give the FOMC the latitude to sit back and wait for a more coherent picture of the U.S. economy to emerge from the data. A Fed funds rate hike is out of the question at the March FOMC meeting, but the meeting will nonetheless be closely watched by financial market participants. The FOMC will release updated economic projections as well as an updated "dot plot." The question at this point is whether the new dot plot will imply any Fed funds rate hikes this year. Fed funds futures are pricing in a nontrivial probability that the FOMC's next move will be a rate cut, not a rate hike, but this seems a highly unlikely outcome at this point.

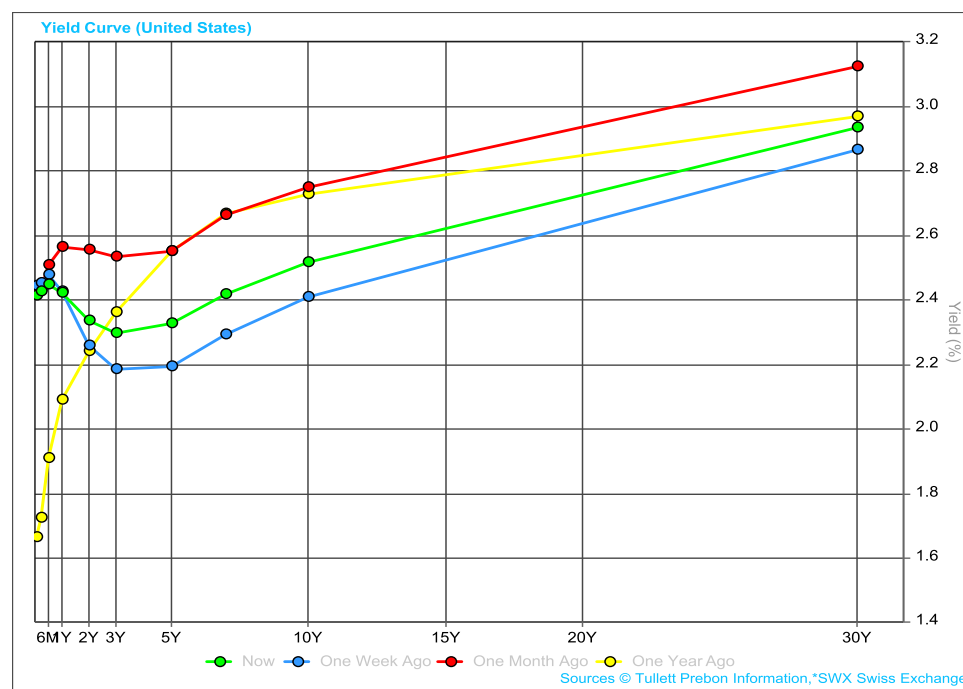
Source: Bureau of Economic Analysis<sup>1</sup>; U.S. Census Bureau<sup>2</sup>; Institute for Supply Management (ISM)<sup>3</sup>; Bureau of Labor Statistics (BLS)<sup>4</sup>

# Fixed Income

## Overview & Outlook



Yields as of March 31, 2019	
US Treasuries	
3-month	2.40%
2-year	2.27%
5-year	2.23%
10-year	2.41%
30-year	2.82%



### Summary View: Neutral

- Federal Reserve has indicated a pause creating a more favorable environment for bonds
- Restrained inflation and slowing growth should keep longer-term bonds range bound
- Valuations remain expensive but will provide diversification with expectations for higher equity market volatility. High Yield offers an attractive YTM of almost 7%, but don't expect much additional return from spread compression.
- Global developed sovereign bonds remain unattractive with little yield. Emerging market bonds provide a more attractive yield relative to developed countries, but currency effects can greatly influence int'l bonds for a U.S. investor. Differing interest rate cycles and currency effects provide diversification benefits.

### Risks:

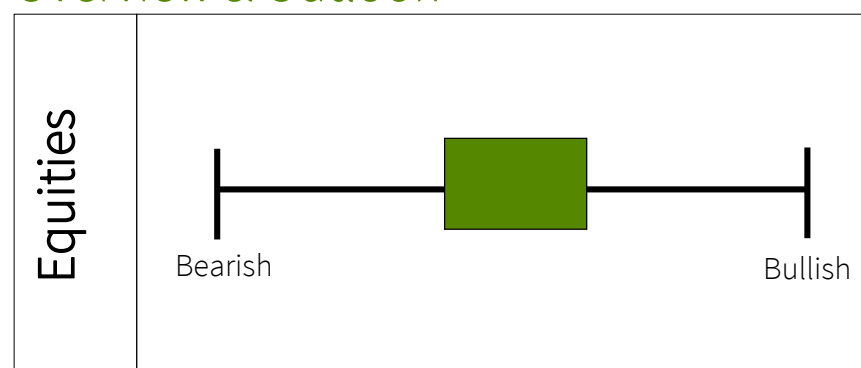
- Lower/higher growth and inflation creates less/more pressure on long-term interest rates versus expectations.
- USD appreciation impacts international bond returns and specifically EM countries ability to finance USD denominated debt.

	YTD 3/31/19	2018	2017	2016	2015	2014
Total Return						
Barclays US Agg Bond TR USD	2.94%	0.01%	3.54%	2.65%	0.55%	5.97%
Barclays High Yield Corp TR USD	7.26%	-2.08%	7.50%	17.13%	-8.30%	2.45%
Barclays Global Agg Ex USD TR	1.52%	-2.15%	10.51%	1.49%	0.36%	-3.08%
Barclays US Treasury US TIPS	3.19%	-1.26%	3.01%	4.68%	-1.44%	3.64%
FTSE Treasury Bill 3 Month (Money Market)	0.60%	1.86%	0.86%	0.33%	0.05%	0.03%

Source: FactSet

# Equities

## Overview & Outlook



S&P 500 Statistics as of March 31, 2019	
Fundamentals	
2018 Earnings	\$161
2019 Earnings Estimates	\$168
Forward P/E	17x
Dividend Yield	1.87%
Technicals	
% of Stocks Above 200ma	62%
VIX (CBOE Volatility Index)	13.71



Source: FactSet, Morningstar

### Summary View: Neutral

- After a substantial rebound in global equity prices to start 2019, forward returns are likely to slow to modest levels. Domestic valuations are in-line with historical averages while int'l markets are below.
- We believe global growth will remain positive in 2019 but trade tariffs remain the largest risk and wildcard; a moderately positive resolution may already be priced in. Bottom-line, the probability of a U.S. recession in 2019 remains low, and the U.S. administration will likely be looking for a deal/political win in the coming months causing sentiment to improve and multiples to expand.
- We expect economic growth to steadily slow (not stop) over the next several quarters while global growth has already slowed materially. With limited revenue growth at a time when cost pressures are building should ultimately impact company margins.
- Long-term return expectations within equities remain favorable vs. other asset classes, especially emerging market international stocks.

### Risks:

- Central bank policy error or investors resetting expectations could create a flight to safety.
- Oil and commodity prices in general have a price shock causing dislocations for consumer spending and margin pressures for corporations.

	YTD 3/31/2019	2018	2017	2016	2015	2014
<b>Total Return</b>						
S&P 500 Index (Large Cap)	13.65%	-4.38%	21.83%	11.96%	1.38%	13.69%
S&P 500 (Large Cap Growth)	14.95%	-0.01%	27.44%	6.89%	5.52%	14.89%
S&P 500 (Large Cap Value)	12.19%	-8.95%	15.36%	17.40%	-3.13%	12.36%
Russell 2500 Index (Small to Mid Cap)	15.82%	-10.00%	16.81%	17.59%	-2.90%	7.07%
Russell Mid Cap Index (Mid Cap)	16.54%	-9.06%	18.52%	13.80%	-2.44%	13.22%
Russell 2000 Index (Small Cap)	14.58%	-11.01%	14.65%	21.31%	-4.41%	4.89%
MSCI ACWI Ex-US (Foreign Stocks, Net Return)	12.31%	-14.20%	27.19%	4.50%	-5.66%	-3.87%
MSCI EAFE Index (Foreign Stocks, Net Return)	9.98%	-13.79%	25.03%	1.00%	-0.81%	-4.90%
MSCI EM (Foreign Stocks, Net Return)	9.91%	-14.58%	37.28%	11.19%	-14.92%	-2.19%

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